TESTIMONY OF THE HONORABLE DAVE REICHERT (WA-8)
U.S. Representative - Eighth District, Washington
Member, U.S. House Committee on Ways and Means

U.S. House Committee on Ways and Means
Subcommittee on Select Revenue Measures

Hearing on “Certain Expiring Tax Provisions”

Thursday, April 26, 2012

1100 Longworth House Office Building
Washington, DC

Chairman Tiberi, Ranking Member Neal, and Members of the Subcommittee –

Thank you for the opportunity to testify today. I applaud your leadership in advancing comprehensive tax reform, and I am proud to be a part of the ongoing work that the Ways and Means Committee is doing to assess various reform options and chart a path to a simpler tax code that ensures American businesses can compete in the global economy and American families can retain more of their hard-earned money.

Today's review of many expired or expiring tax provisions is an essential component of the drive toward tax reform. You can add my voice to the bipartisan chorus acknowledging that our tax code is far too complex, and I believe this Committee must continue to eliminate wasteful, ineffective tax provisions. But we must also acknowledge that there is a role for certain business and individual tax incentives to play both as a bridge to tax reform and as a continued catalyst for job creation and economic recovery. I appreciate the chance to offer my suggestions for key tax provisions that should be extended.

As a Representative from Washington State, no discussion about tax policy can begin without mentioning a provision that affects every single taxpayer in our state – the ***state and local sales tax deduction***. It is simply a matter of fairness for Washington and other states without a state income tax to extend this vital deduction. Our taxpayers deserve the same certainty and predictability in the ability to deduct these local taxes as residents of every other state. I will continue to fight to extend and make permanent this essential tax relief for my state, as I have sought every year since I came to Congress.

In reviewing 'tax extenders,' I encourage the Committee to prioritize consideration of those tax provisions that 1) leverage the maximum private sector capital and 2) have the greatest demonstrated potential to create and sustain American jobs.

Business Extenders That Leverage Private Capital and Create Jobs

I know many Members will join me in expressing support for long-standing, 'traditional' incentives like the ***research tax credit*** that help American businesses innovate and grow. But I want to emphasize today two extensions of current tax law that I authored that have a demonstrated ability to leverage private capital and create jobs: the ***renewable energy production tax credit (H.R. 3307)*** and the ***five-year holding period for built-in gains for small businesses organized as S corporations (H.R. 1478)***.

In the past six years, the ***production tax credit (PTC)*** leveraged billions of dollars of private investment in American manufacturing – $60 billion in the wind industry alone, where the credit has successfully grown our domestic manufacturing capabilities from 25% of turbine value to over 60% in the same time frame. Studies suggest that the PTC leveraged $15.5 billion in private capital in the wind industry annually since 2005, nearly 12 times the Joint Committee on Taxation's revenue estimate for the PTC. And that figure does not even account for the investment that the PTC spurs in other qualifying renewable resources, including hydropower, geothermal, biomass, and landfill waste projects.

The production tax credit also has a proven record of creating and sustaining American jobs. It not only supports an increasing number of domestic manufacturing jobs, but it also supports the services sector jobs that design and finance these capital-intensive energy projects. I believe a tax incentive that serves the dual purpose of putting Americans to work lowering energy costs for other American families and businesses is worthy of extension.

Given the significant time, labor, and capital involved in bringing these energy projects online, a strong case can be made for the urgent need to extend the production tax credit in the next available tax vehicle in order to stave off the dire economic consequences of its looming expiration. A recent Navigant Consulting study indicates that the failure to extend the PTC would put 37,000 American jobs in the wind industry at risk. I have heard from countless manufacturers, utilities, and developers how the uncertainty over whether the PTC will be extended is already causing lay-offs, project delays, and cancellations. With energy prices volatile and economic recovery fragile, now is not the time to freeze job-creating, private investment in a key sector.

I am pleased that there is such strong, bipartisan support in Congress and in the Ways and Means Committee for extending the production tax credit, including a majority of the members of the Subcommittee on Select Revenue Measures, 14 members of the full Committee, and the 95 Members of Congress representing 32 states who have cosponsored the legislation I introduced with Ways and Means colleague Earl Blumenauer (D-OR). Included in my testimony is a letter signed by House Republicans who also believe that an extension of the PTC is consistent with seeking "all of the above" energy solutions and bringing needed policy certainty for American workers, industries, and investors.

Moving forward, how the Committee addresses an extension of the PTC can have a significant impact on the path to tax reform. I am encouraged that the wind industry is already contemplating how it might transition off of the PTC as the industry matures; this kind of advanced thinking is needed more broadly in our ongoing deliberations about tax reform. Both congressional Republicans and President Obama have called for an "all of the above" energy policy strategy, and tax policy is an integral – if not foundational – component of any strategy to lower energy costs for American families and businesses, diversify our nation's energy supply, and move toward energy independence. In taking up energy tax reform, the Committee should continue to consider how tax policy intersects with our nation's natural and renewable energy resources, the issues of energy transmission and storage, and increasing energy efficiency in homes, buildings, and vehicles.

The reduced ***five-year holding period for built-in gains in small businesses organized as S corporations*** is another tax provision that leverages private capital and creates American jobs. This common sense measure that I authored as part of a broader package with Congressman Ron Kind (D-WI) enables S corporations to access their own capital sooner. An April 2011 study by Dr. Robert Carroll (Ernst &Young) found that businesses organized as flow-through entities account for more than half of all private sector jobs in the United States, and 56% in Washington State. One out of every four of these workers is employed by an S corporation.

Enabling scores of these businesses to continue unlocking their own capital sooner is one of many actions Congress can take to help small businesses access the resources needed to grow their businesses and create jobs. The holding period for built-in gains reverted to 10 years with the expiration of this provision in 2011 – meaning that if Congress fails to act, businesses that converted to S corporation status must wait a decade to access their own capital or face a punitive tax.

I am grateful that Subcommittee Chairman Tiberi cosponsored my *S Corporation Modernization Act*, and I would also like to submit for the hearing record a letter from 13 organizations representing millions of small businesses across America who support an extension of this provision.

Individual Extenders that Leverage Private Capital and Invest in Communities

Just as I urge the Committee to consider business tax extenders that leverage private capital, so too should the Committee consider individual tax extenders that do the same for the broad benefit of communities. Tax incentives that encourage investment in education and philanthropy merit strong support.

I am proud to champion an extension of the ***deduction for educators' out-of-pocket classroom expenses*** (H.R. 1738), a long-standing, bipartisan priority for this Committee that was previously sponsored by now-Chairman Dave Camp (R-MI) and currently enjoys the support of 98 Members of Congress, 10 of whom serve on the Ways and Means Committee.

Strong public education depends in part on equipping teachers with adequate resources to help students succeed. According to 2006 data from the National Education Association (NEA), educators spent an average of $477 out of their own paychecks just to purchase basic classroom supplies like books, pencils, and paper. The National School Supply and Equipment Association released data from the 2009-2010 school year demonstrating that public school teachers spent more than $1.3 billion out-of-pocket on classroom materials. Ninety-two percent of teachers polled reported that they had spent some of their own money on classroom materials.

These educators are demonstrating such a commitment to investing in their students that they are reaching into their own pocketbooks to provide classroom materials and further their own professional development. Extending the deduction for out-of-pocket classroom expenses has a leveraging effect by recognizing and encouraging the continued personal financial investment these educators are making in their students. I am pleased to include with my testimony a statement from the 3.2 million members of the NEA in support of my bill.

Similarly, I strongly support ***tax policy that encourages charitable giving****.* Congressman John Larson (D-CT) and I have worked closely together to support the philanthropic efforts of public charities and private foundations. Especially in these difficult economic times, charities and foundations play an increasingly important role in providing basic services for children, families, and others struggling to make ends meet. I have seen firsthand the impact that philanthropic organizations like Northwest Harvest, the College Success Foundation, Habitat for Humanity, the United Way of King County, the Gates Foundation, and the Newman's Own Foundation are making in underserved communities in Washington State and across the country. The Committee should remain mindful of the role that tax policy can play in leveraging charitable giving to organizations that do so much good for those in need.

In closing, I commend the Subcommittee for holding this hearing and providing members on and off of the Ways and Means Committee with the opportunity to share their views on expired or expiring tax provisions. I am eager to continue working closely with my Committee colleagues on both sides of the aisle to review and advance 'tax extenders' that leverage private capital and create jobs as we make further progress toward comprehensive tax reform.

DAVE REICHERT

Member of Congress
Eighth District, Washington

Congress of the United States
Washington, DC 20515

April 26, 2012

The Honorable Pat Tiberi
Chairman
U.S. House Ways and Means Subcommittee on Select Revenue Measures
106 Cannon House Office Building
Washington, DC 20515

Dear Chairman Tiberi:

As fellow members of the House Republican Conference, we applaud your ongoing efforts to advance comprehensive tax reform and your careful review of many expired or expiring tax provisions as a component of the drive for reform. As your Subcommittee on Select Revenue Measures considers extending certain tax provisions and eliminating others, we urge you to ensure that the renewable energy production tax credit (PTC) is extended while Congress works to achieve comprehensive tax reform.

The production tax credit, first enacted in 1992 and extended seven times under both Republican and Democratic Congresses, enjoys broad support across regions and the political spectrum. In the past six years, the production tax credit has helped nascent energy industries mature, supported hundreds of manufacturing facilities located in nearly every U.S. state, and leveraged billions of dollars in private investment – $60 billion in the wind industry alone, where the credit has successfully grown our domestic manufacturing capabilities from 25% of turbine value to over 60% in the same time frame. The production tax credit is essential to supporting thousands of American manufacturing and services jobs and to reducing American businesses' and families' electricity bills. And unlike federal spending programs that enable politicians and agency bureaucrats to pick winners and losers, the production tax credit can only be claimed by fulfilling its intended purpose – producing American-made energy.

As a Conference, we have time and again committed to "all of the above" energy solutions and to delivering job creators needed certainty in federal policies and regulations. Extending the renewable energy production tax credit would enable us to demonstrate House Republicans' continued efforts to achieve both objectives. Nowhere is policy and regulatory certainty more important than in capital-intensive industries that require substantial financing to bring facilities online.

Furthermore, the failure to extend the production tax credit could have a dire immediate and long-term impact on American jobs and our country's energy supply. The production tax credit for wind is set to expire at the end of this year and for other renewable resources in 2013, and the economic impact of the looming expiration is already being felt nationwide. Unlike other tax provisions, where late, lapsed, or retroactive extensions may be little more than an inconvenience, delays in extending the production tax credit are particularly devastating – when the credit lapsed for several months in 2002 and 2004, wind project installations plunged 73% and 77%, respectively. Given that the industry's manufacturing base has more than doubled since 2004, the failure to extend the production tax credit puts far more American jobs at risk today. With energy prices volatile and economic recovery fragile at best, now is not the time to let history repeat itself and freeze private investment in industries that put Americans to work lowering electricity costs for other Americans.

As your Subcommittee evaluates tax 'extenders' in the context of comprehensive tax reform, we urge you to consider the economic impact of extending the production tax credit while working toward tax reform and to include an extension in the next available tax legislation.

Sincerely,

DAVE REICHERT
Member of Congress

CHARLES BOUSTANY
Member of Congress

JIM GERLACH
Member of Congress

CHARLIE BASS
Member of Congress

TOM COLE
Member of Congress

RICK CRAWFORD
Member of Congress

ROBERT DOLD
Member of Congress

MICHAEL FITZPATRICK
Member of Congress

TIMOTHY JOHNSON
Member of Congress

STEVE KING
Member of Congress

TOM LATHAM
Member of Congress

FRANK LUCAS
Member of Congress

KRISTI NOEM
Member of Congress

TODD PLATTS
Member of Congress

JIM RENACCI
Member of Congress

JON RUNYAN
Member of Congress

April 26, 2012

Extend the 5-Year Holding Period for Built-In Gains

Dear Members of the House Ways and Means Committee:

As representatives of America's small and closely-held businesses, we respectfully encourage you to extend the 5-year holding period for built-in gains, a key provision of the bipartisan *S Corporation Modernization Act* (HR 1478) introduced by Ways and Means Committee members Dave Reichert (R-WA) and Ron Kind (D-WI).

Small businesses are the engine of America's economic growth and S corporations are the cornerstone of the small business community. There are nearly 4.5 million S corporations nationwide. They are in every community and every industry. A recent study by Dr. Robert Carroll (Ernst & Young) found that S corporations are a significant source of jobs as well, employing one out of every four private sector workers.

Unlike public companies, these closely-held businesses have little or no access to the public capital markets. They rely on banks, they rely on relatives, and they rely on their own assets for investment and working capital. An overly long built-in gains tax exacerbates this disadvantage by preventing converted S corporations from putting the capital they already control to better use.

S corporations should not be blocked from accessing their own capital; these are critical resources that allow private companies to grow their businesses, create jobs, and remain competitive.

On behalf of America's Main Street business community, we respectfully ask that you extend the 5-year holding period for built-in gains.

Thank you for your consideration.

Sincerely,

American Council of Engineering Companies
Associated Builders and Contractors, Inc.
Independent Community Bankers of America
National Beer Wholesalers Association
National Federation of Independent Business
National Funeral Directors Association
National Small Business Association
Printing Industries of America
Professional Beauty Association
Roofing Contractors Association
S Corporation Association
U.S. Chamber of Commerce
Wine and Spirits Wholesalers of America

NATIONAL EDUCATION ASSOCIATION nea.org
Great Public Schools for Every Student

Testimony Submitted for the Record
U.S. House of Representatives Committee on Ways and Means
Subcommittee on Select Revenue Measures

Hearing on Certain Expiring Tax Provisions
April 26, 2012

Chairman Tiberi and Members of the Subcommittee. On behalf of the 3.2 million members of the National Education Association (NEA), we thank you for the opportunity to submit these comments for the record in conjunction with the hearing on certain expiring tax provisions. These comments focus on two specific expiring tax policies – the educator tax deduction and the Qualified Zone Academy Bond (QZAB) program.

Extend the Educator Tax Deduction
NEA strongly supports an extension of the educator tax deduction. This critical deduction, which expired at the end of the 2011 tax year, helps recognize the financial sacrifices made by teachers and education support professionals.

Educators often reach into their own pockets to purchase classroom supplies because they want to make sure students have what they need to succeed. Studies show that educators are spending more of their own funds each year to supply their classrooms and purchase essential items such as pencils, glue, scissors, and facial tissues. According to NEA's most recent survey, 97 percent of educators surveyed indicated that, in 2006, they had spent some of their own money to meet the needs of their students. These educators spent an average of $477 a year out of their own pockets to purchase classroom supplies such as books, pencils, paper, and art supplies.[1]

Many educators are finding the need to reach into their own pocket has increased in these difficult economic times, as funding cuts lead to shortages in essential supplies and more students come to school without basic learning tools. A large majority of educators also spend an average of $15 a month out of their own pockets to feed students. (*Status of the American Public School Teacher 2005–2006,* March 2010.)[2]

The need for these expenditures is not surprising. According to First Focus:

- 2.7 million more children lived with an unemployed parent during a typical month in 2011, compared to 2007 (an increase of 71%), bringing the 2011 total to 6.5 million children;
- 3 million (47% of those living with an unemployed parent) lived, during a typical 2011 month, with a parent unemployed six months or longer;
- 8 million more additional children relied upon SNAP for food in 2011, compared to 2007, bringing the total number of children receiving SNAP to 21 million (one in four);
- 16 million children (more than one in five) currently live in poverty[3]

The educator tax deduction is a bipartisan recognition of educators' financial sacrifices as well as of the needs of students who lack even the basic necessities for success in school. Extending it will make a real difference for many educators, who often must sacrifice other personal needs in order to pay for classroom supplies and instructional materials.

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[1] National Education Association, *Status of the American Public School Teacher 2005–2006,* March 2010.
[2] Ibid.
[3] *The Recession's Ongoing Impact on America's Children: Indicators of Children's Economic Well-Being Through 2011*, Julia Isaacs, Brookings Institution, December 2011.

Expand the Educator Tax Deduction
We also strongly support the Teacher Tax Relief Act (H.R. 1738), introduced by Representative Reichert (R-WA). This bill would expand the educator deduction to cover professional development expenses, increase it from $250 to $500, and make the deduction permanent. Teacher quality is the single most critical factor in maximizing student achievement. Ongoing professional development is essential to ensure that educators stay up-to-date on the skills and knowledge necessary to prepare students for the challenges of the 21st century. Expanding the deduction to cover professional development expenses would make a critical difference in helping educators access quality training.

Extend the QZAB Program
NEA also supports extension of the Qualified Zone Academy Bonds program. On average, the buildings that house our public schools are more than 40 years old.[4] The American Society of Civil Engineers gives the condition of our schools a grade of "D" and attributes the failure to upgrade them to "problems in the financial sector and declining revenues for states and local governments."[5] According to Fix America's Schools Today (FAST!), a project of the Economic Policy Institute and the 21st Century School Fund schools need an estimated $500 billion in repairs and upgrades.

The QZAB program has proven to be an efficient and cost-effective way to help disadvantaged communities address pressing renovation and repair needs. QZABs assist school districts in rural and urban communities by providing a financing mechanism to renovate buildings and invest in equipment and technology. Investors receive a federal tax credit equal to the amount of interest payable on the bonds, thereby relieving local taxpayers and municipalities of the interest burden.

A school that is awarded a QZAB may use the funds to:

- renovate and repair buildings;
- invest in equipment and up-to-date technology;
- develop challenging curricula; or
- train quality teachers.

The QZAB program expired at the end of the 2011 tax year. We urge Congress to extend this critical program.

Thank you for your consideration of these comments.

Submitted on behalf of:

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[4] *National Center for Education Statistics*
[5] *Report Card for America's Infrastructure, 2009*